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The Governor

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RECORD OF A DISCUSSION BETWEEN THE CHANCELLOR AND THE GOVERNOR AT  
11 DOWNING STREET AT 10.00 AM . ON 21 JANUARY

Present:

Chancellor of the Exchequer	Governor
Sir Douglas Wass	
Mr. Pirie	
Mr. Kerr	

*referred to:* After a preliminary exchange about the European Ferries' bid for Singer and Friedlander, which he noted had apparently attracted no official disfavour, the Chancellor asked the Governor about the nature of his objections to the Distillers' bid for the Bank of Scotland.

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2. The Governor said that the Bank of Scotland were strongly opposed to the bid, would resist it, and thought they would win. The large Barclays stake, and the Kuwait stake, in the Bank of Scotland, were relevant. The Bank of Scotland believed that their future prospects lay in wider operations in the United States and in the Middle East: both would be blocked by a successful bid by Distillers: industrial ownership of banks was illegal in the United States, and a bank owned by a whisky company could clearly not operate in the Moslem world. His own objections to the bid were on two grounds. On prudential grounds, he was concerned that the dominant influence of Distillers might over time shift the balance of the bank's business in a particular direction: this would not necessarily be in line with depositors' interests. He also thought that the take-over would be at least marginally, and perhaps substantially, detrimental to competition within the banking system. And, while Distillers claimed that their ownership would preserve the Scottish character of the Bank of Scotland, one could not be sure that they would not at some future date wish to dispose of the asset they had acquired. Asked by the Chancellor as to whether he thought he had the power to stop



the take-over, the Governor said that his only power in present circumstances was that of persuasion.

3. Sir Douglas Wass said that the "prudential" objection suggested that there might be a case for legislation to stop banks lending to their major shareholders. But the immediate question was whether Distillers might proceed with the bid despite discouragement from the Governor. There clearly was a possibility that they might. The Chancellor, agreeing, said that the chances were enhanced by the fact that the Governor could not tell Distillers that he had HMG's authority to try to stop the bid.

4. The Governor said that he quite understood this. He was sure that he had to try to discourage Distillers, and thus to run the risk of being seen to fail. He was grateful for the Chancellor's concern about that risk. But it was not open to him to say the matter was one for the shareholders to decide: he had to look to the interests of depositors. Asked by Sir Douglas Wass about the likely attitude of Barclays, he said that he thought they would understand his views.

5. The Chancellor then said that the Governor would not of course be able to tell Distillers that if they went ahead the matter would be referred to the MMC. A reference to the MMC was possible, but the Secretary of State for Trade would naturally not take a view in advance of receiving advice from the take-over panel. The Governor could not therefore claim to commit HMG. The Governor said that this was fully understood. He would convey his own views to Distillers, and would see what he could achieve by courtesy and persuasion.

J.O. KERR

21 January 1982

Distribution

Chief Secretary  
Economic Secretary  
Sir Douglas Wass  
Mr. Rylie

Mr. Middleton  
Mr. Monck  
Mr. Pirie  
PS/Governor